

Referrals
6/18/19

**BUDGET,
FINANCE, AND
AUDIT STANDING
COMMITTEE**



**OFFICE OF CONTRACTING
AND PROCUREMENT**

June 12, 2019

HONORABLE CITY COUNCIL:

The Purchasing Division of the Finance Department recommends a Contract with the following firm(s) or person(s):

6002177 100% City Funding – To Provide Oils and Lubricants for the City. –
Contractor: Lynden Oil Company – Location: 30692 Tracy Rd.,
Walbridge, OH 43537 – Contract Period: Upon City Council Approval
through June 30, 2023 – Total Contract Amount: \$5,250,000.00.
CITYWIDE

Respectfully submitted,

Boysie Jackson, Chief Procurement Officer
Office of Contracting and Procurement

BY COUNCIL MEMBER **AYERS**

RESOLVED, that Contract No. 6002177 referred to in the foregoing communication dated June 12, 2019, be hereby and is approved.



Office of the Auditor General


Mark W. Lockridge, Auditor General

Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 216
Detroit, Michigan 48226
Phone: (313) 224-3101
Fax: (313) 224-4091
www.detroitmi.gov

AUDIT MEMORANDUM

DATE: June 11, 2019

TO: Honorable City Council
Honorable Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA 
Auditor General

RE: **THE CASINO DEVELOPMENT FUND**
Office of Neighborhood Commercial Revitalization Small
Business Detroit Microloan Project

CC: Glen Long, Chief Operating Officer, Detroit Economic Growth
Corporation/Economic Development Corporation
Stephanie Washington, Esq., City Council Liaison
Daniel Arking, Attorney, Law Department
David Whitaker, Director, Legislative Policy Division
Casino Representatives

Attached for your review is our report on the Casino Development Fund Office of Neighborhood Commercial Revitalization project. This memorandum contains: our audit purpose, scope, objectives, methodology and conclusions, background, our audit summary.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Economic Development Corporation.

We would like to thank the employees of the above named organizations for their cooperation and assistance extended to us during the audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/Government/Office of the Auditor General](http://www.detroitmi.gov/Government/Office_of_the_Auditor_General)

**Audit of the Casino Development Fund
Office of Neighborhood Commercial Revitalization
Small Business Detroit Microloan Project**

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund – Office of Neighborhood Commercial Revitalization (ONCR)-Small Business Detroit Microloan project was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by City Council, and report findings and recommendations to City Council and the Mayor.

City Council requested that the OAG perform an audit of the Casino Development Fund in relation to a Legislative Policy Division report dated October 11, 2016.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the ONCR Small Business Detroit Microloan project. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the OAG within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were to:

- Review financial reports and audited financial statements from each sub-grantee to ensure the Casino Development Funds are properly accounted for and spent in accordance with program objectives and guidelines as stated in the casino agreements, Economic Development Corporation (EDC)/City of Detroit and EDC/sub-grantee funding agreements.
- Conduct a performance audit of each sub-grantee to ensure the Casino Development Funds are effectively and efficiently received and spent in accordance with best practices and in support of program objectives and guidelines.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Reviewing the Casino Development Agreements, project funding agreements, City Charter, the project budget reports, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the Casino Development Fund project's transactions, controls, functions, records, and personnel.

- Identifying risks relative to financial transactions and mitigating controls with appropriate personnel.
- Interviewing appropriate personnel, reviewing documentation, and making observations to aid in developing audit programs.

CONCLUSIONS

As a result of our audit of the ONCR-Small Business Detroit Microloan Project, we concluded that ONCR's Designated Service Provider (DSP), Center for Empowerment and Economic Development (CEED):

- Properly accounted for and spent the casino development funds in accordance with the project objectives and guidelines.
- Used the funds for administrative expenses and to guaranty loans in accordance with the project objectives.
- Fulfilled their responsibilities as the DSP.

BACKGROUND

Origination of Casino Development Fund

The Casino Development Fund is a commitment made by the three Detroit casinos (MGM Grand Detroit, MotorCity, and Greektown) and the City of Detroit (City), to contribute money for the purpose of assisting minority business development in a specified area within the City. The assistance to business development focuses on: financing façade improvements, GAP financing, loan guaranties, rehabilitation, equipment and working capital for existing and new businesses.

The City received \$2.5 million from MotorCity Casino during the period of the initial Casino Development Agreements (1998-1999). The City received \$30.0 million from the three casinos (\$10.0 million from each casino) in accordance with the Casino Development Agreements.

Economic Development Corporation

The Economic Development Corporation (EDC) is a public body corporation created by the Detroit City Council by enactment of Ordinance 120-H effective June 9, 1979. All services to be performed are set forth in the "Scope of Services" section of the EDC/City personal service contract and is coordinated and performed by the Detroit Economic Growth Corporation. The Detroit Economic Growth Corporation is a private non-profit 501c.4 organization and is an agent of EDC that acts as a liaison between EDC and the City.

Office of Neighborhood Commercial Revitalization Project

The Funding Agreement for the Office of Neighborhood Commercial Revitalization (ONCR) project is between the EDC of the City of Detroit and the City acting by and through its Planning & Development Department.

According to the Funding Agreement between EDC and the City of Detroit, the City acting through ONCR shall provide services to assist the EDC in its administration of the Project.

The mission stated in the ONCR Targeted Business Fund Work Plan "is to enhance the City's support for small business at the City-wide level and to continue and expand our support for neighborhood commercial revitalization."

Overview of the Micro-Loan Project

The Microloan Fund will assist small retail, restaurant or service businesses to begin or expand. The Small Business Detroit Community Capital Loan Project will also serve as a coordinating and advocacy body to make small business technical assistance, City services, and other forms of small business technical assistance more accessible to Detroit small businesses.

The Small Business Detroit Microloan Project focused on high risk, low-return loans not offered by conventional lending institutions and the accompanying high level technical assistance provided to applicants and loan recipients. The program was intended to

serve as a compliment to existing conventional and nonprofit offerings by servicing small businesses that were generally a slightly higher risk than other entities may be comfortable extending loans.

Center for Empowerment & Economic Development

In 2006, the Center for Empowerment & Economic Development (CEED) was selected as the Designated Service Provider (DSP) by the ONCR to operate the microloan program. The City wanted to offer a lending program for Detroit-based businesses to support small businesses and encourage small business development. As the DSP, CEED received casino development funds to be used for administrative expenses and the guaranty loans (loss reserve).

Audit Summary

The Funding Agreement between EDC and CEED includes the following duties of ONCR in regards to the project:

ONCR will provide contract compliance regarding the Small Business Detroit Microloan Program and will act as Program Manager to the Designated Service Provider (DSP). ONCR will:

- Establish a mechanism for performance monitoring and contract compliance, which will be conducted on a quarterly basis and reported to ONCR Advisory Board and EDC.
- Act as Program Liaison between EDC and the DSP.

As the DSP, CEED was required to:

- Provide applicant recruitment and per-loan technical assistance.
- Implement and manage loan client counseling and referral services.
- Provide loan processing and serving to all loan clients.
- Provide program oversight/management/evaluation.
- Provide proper program recognition on all published/printed documents.

Funding Information

Per the contract terms outlined in the Funding Agreement between EDC and CEED, Casino Development Funds were designated for administrative expenses and the guaranty loans (loss reserve) in relation to this program.

According to the EDC Casino Development Funds Budget and Expenditure report dated December 31, 2017, CEED had a budget of \$1,500,000. EDC distributed the full amount of funds in three installments. According to the records received from EDC and CEED reviewed by the auditors, the program generated a total of \$34,069.14 in dividend income bringing the total funds available to \$1,534,069.14. CEED spent a total of \$1,487,912 on administrative expenses and the loan loss reserve between 2006 and 2016. As of September 2018, the remaining balance of \$46,188 is allocated to the loan loss reserve to secure CEED's loan portfolio.

Project Outcomes

Between 2006 and 2018, over 200 applications were received for the program. Seventy-five applications were approved and 59 loans were made to a total of 42 businesses. These Detroit-Based Businesses received a total of \$1.2 million in funding which has contributed to the start-up of 27 businesses, creation of 72 jobs and retention of 110 jobs. As of October 2018, 32 of the 42 businesses are still in existence.

CEED has conducted several outreach initiatives including meeting with community partners, organizing business conferences, and hosting loan presentations with various

non-profit, community based organizations throughout the City. Currently, CEED holds loan orientations every Tuesday morning and one Saturday per month at its Detroit office at the Grand River Workplace. The program provides 15 hours of growth training primarily focused on successfully identifying and responding to requests for proposals. CEED plans to continue making loans to Detroit Based Businesses and to employ two or more employees to assist with the program operations.



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AUDIT MEMORANDUM

DATE: June 11, 2019

TO: Honorable City Council
Honorable Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA *MWL*
Auditor General

RE: **THE CASINO DEVELOPMENT FUND**
TechTown Project

CC: Glen Long, Chief Operating Officer, Detroit Economic Growth
Corporation/Economic Development Corporation
Stephanie Washington, Esq., City Council Liaison
David Whitaker, Director, Legislative Policy Division
Casino Representatives

Attached for your review is our report on the Casino Development Fund – TechTown project. This memorandum contains: our audit purpose, scope, objectives, methodology and conclusions, background and our audit summary.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Economic Development Corporation.

We would like to thank the employees of TechTown and the Economic Development Corporation for their cooperation and assistance extended to us during the audit.

Copies of all of the Office of the Auditor General reports can be found on our website at [www.detroitmi.gov/Government/Office of the Auditor General](http://www.detroitmi.gov/Government/Office%20of%20the%20Auditor%20General).

Audit of the Casino Development Fund
Project: TechTown

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Casino Development Fund – TechTown project was performed in accordance with the Office of the Auditor General's (OAG) charter mandate to conduct audits of the financial transactions, performance, and operations of City agencies based on an annual risk-based audit plan prepared by the Auditor General, or as otherwise directed by the City Council, and report findings and recommendations to the City Council and the Mayor.

City Council requested that the OAG perform an audit of the Casino Development Fund in relation to a Legislative Policy Division report dated October 11, 2016.

AUDIT SCOPE

The scope of this audit was an independent review and assessment of the TechTown project. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the OAG within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were to:

- Review financial reports and audited financial statements from each sub-grantee to ensure the Casino Development Funds are properly accounted for and spent in accordance with program objectives and guidelines as stated in the casino agreements, Economic Development Corporation (EDC)/City of Detroit and EDC/sub-grantee funding agreements.
- Conduct a performance audit of each sub-grantee to ensure the Casino Development Funds are effectively and efficiently received and spent in accordance with best practices and in support of program objectives and guidelines.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Reviewing the Casino Development Agreements, project funding agreements, City Charter, the project budget reports, and organization charts.
- Gathering policies and procedures of core operations and similar data.
- Conducting an audit-planning meeting to determine the scope and audit objectives, and to determine the financial transactions and/or areas to audit.
- Developing questions regarding the Casino Development Fund project's transactions, controls, functions, records, and personnel.
- Identifying risks relative to financial transactions and mitigating controls with appropriate personnel.

- Interviewing appropriate personnel, reviewing documentation, and making observations to aid in developing audit programs.

CONCLUSIONS

As a result of our audit of TechTown, we have concluded that TechTown:

- Properly accounted for and spent Casino Development Funds in accordance with the project objectives and guidelines.
- Spent the Casino Development Funds in accordance with best practices and in support of their objectives to provide opportunities to Detroit based businesses including women-owned and minority-owned businesses.
- Assisted start-up businesses in accordance with their funding agreement.

BACKGROUND

Origination of Casino Development Fund

The Casino Development Fund is a commitment made by the three Detroit casinos (MGM Grand Detroit, MotorCity, and Greektown) and the City of Detroit (City), to contribute money for the purpose of assisting minority business development in a specified area within the City. The assistance to business development focuses on: financing façade improvements, GAP financing, loan guaranties, rehabilitation, equipment and working capital for existing and new businesses.

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TechTown Project

In an effort to further the City's ability to assist small Detroit-based, women-owned, and minority-owned business throughout the City, Detroit City Council allocated money towards the Casino Development Fund project. EDC received funding to administer various programs per their funding agreement including the TechTown project. TechTown was founded in 2000 by Wayne State University (WSU), Henry Ford Health System and General Motors to support tech-based spinoffs from WSU and help strengthen neighborhood small businesses and commercial corridors across Detroit. TechTown offers a full suite of entrepreneurial services for tech and neighborhood businesses, with satellite offices across the City.

Audit Summary

According to the Funding Agreement between the EDC and the City of Detroit, the goal of the project was to provide TechTown with funds for investment in promising high-tech start-ups to create jobs in emerging sectors of the economy. TechTown was tasked with providing funds to businesses and creating an environment where start-ups can take advantage of university research, student internship opportunities, and assistance in contract procurement, grant-writing, and consulting services.

Program Information

Between 2006 and 2018, TechTown operated several programs to support tech start-ups and local businesses. TechTown is continuing their efforts to support tech start-ups and local businesses by providing tech and business assistance programs, co-working, office space, meeting and event space. TechTown also connects entrepreneurs to resources, and learning and networking events in Detroit.

Through Casino Development funding, TechTown has administered the following programs:

- **Frontline Accelerator for Science and Technology (FAST)**
The FAST program was available to promising start-up companies at TechTown. FAST companies received a variety of free or low-cost consulting services, including market research, business plan writing, public relations and marketing, and human resources, as well as access to investment capital, legal help, information technology and other forms of professional support. Participants were also exposed to the Detroit Entrepreneurial Network, a support group of entrepreneurs, and the Great Lakes Angels, an investment group that targets entrepreneurial ventures.
- **SmartStart**
SmartStart was a business boot camp that offered entrepreneurs a series of focused workshops on subjects like product development, marketing and funding. Participants were paired with business mentors to develop a viable business plan and apply for financial assistance through TechTown. TechTown also provided participants with office space at its 440 Burroughs Street facility, technology expertise from Wayne State University faculty, and access to the web-based Angelsoft database to find angel investors.
- **Thrive One Fund**
The Thrive One Fund was established to ensure that the goals for Detroit were met through the investment in minority and women owned businesses in the City. The program provided loans to women and minority businesses that couldn't get standard business funding.

- **SWOT City**

SWOT City is a customized support program for brick-and-mortar small businesses in Detroit neighborhoods. The program provides coaching to businesses to help them:

- Determine priorities, define strategies, and set actionable goals.
- Develop and refine growth plans.
- Identify and navigate processes, including real estate purchase/leasing, permitting and licensing, grants and loans.
- Connect to a broad network of tools and resources, including technical assistance, subject matter experts, sources of capital, and professional services.

SWOT City, in partnership with community based organizations, is currently working in seven Detroit neighborhoods:

- Brightmoor (Brightmoor Alliance).
- East Jefferson (Jefferson East, Incorporated).
- Grandmont Rosedale (Grandmont Rosedale Development Corporation).
- Mack Avenue (Eastside Community Network).
- Osborn (Osborn Neighborhood Alliance).
- Southwest Detroit (Ford Resource and Engagement Center).
- University District.

Funding Information

According to the EDC Casino Development Funds Budget and Expenditure report dated September 30, 2018, TechTown had a budget of \$4,000,000. EDC revised the budget to \$3,040,936 and distributed the entire amount to TechTown. As of November 2018, TechTown has spent all Casino Development Funds received in accordance with the TechTown project's objectives.